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MEMORANDUM

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AZ CORP COMMISSION
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FROM: Ernest G. Johnson
Director
Utilities Division

DOCKETED BY

THRU: Matthew Rowell
Chief, Telecommunications & Energy Section
Utilities Division

DATE:

RE: VALUE-ADDED COMMUNICATIONS, INC. APPLICATION TO PROVIDE
ALTERNATIVE OPERATOR SERVICES WITHIN THE STATE OF ARIZONA
(DOCKET NO. T-03798A-99-0604)

Attached is the Staff Report for the above referenced application. The Applicant is applying for approval to provide the following service:

- Alternative Operator Services

EGJ:AJL: rdp

Originator: Adam Lebrecht

Attachment: Original and Sixteen Copies

STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

VALUE ADDED COMMUNICATIONS

DOCKET NO. T-3798A-99-0604

VALUE ADDED COMMUNICATIONS' APPLICATION TO PROVIDE
ALTERNATIVE OPERATOR SERVICES WITHIN THE STATE OF ARIZONA

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ATTACHMENTS:

MAXIMUM INTERLATA USAGE AND SERVICES CHARGES.....	SCHEDULE 1
MAXIMUM INTRALATA USAGE AND SERVICES CHARGES.....	SCHEDULE 2

STAFF ACKNOWLEDGMENT

The Staff Report for Value-Added Communications, Inc, Docket No. T-3798A-99-0604, was the responsibility of the Staff member listed below. Adam Lebrecht was responsible for the review and analysis of the Applicant's application to obtain a Certificate of Convenience and Necessity to provide telecommunications services as a provider of Alternative Operator Services.

A handwritten signature in black ink, appearing to be 'AL', is written over a horizontal line.

Adam Lebrecht
Executive Consultant I

1.1 INTRODUCTION

On October 22, 1999, Staff received an application from Value-Added Communications, Inc. ("VAC") for certification as an Alternative Operator Services ("AOS") provider in the State of Arizona.

AOS is a service industry that provides resold telecommunications and operator services to large distinct customers, such as hotels, motels, health care and correctional facilities. The AOS provider will contract with the hotel or correctional facility to provide services. The hotel or correctional facility is referred to as an "aggregator" as in the ordinary course of its operations it allows for intrastate telephone services to be available to its patrons. The patrons of the "aggregator" are referred to as "end-users." AOS services are provided by routing all calls originating from the aggregator premise to the AOS provider, which then handles the call to meet the needs of the end-user.

"End-users" have no control over the aggregator's subscription for long distance service, and as such are essentially captive customers for telecommunications services. The Commission has previously determined that it is in the public interest to ensure that an end user using the telecommunications services of an AOS provider be charged rates consistent with the corresponding rates and service charges of certified facilities-based toll carriers available to the calling public.

Staff has reviewed the authorized rates and service charges applicable to AOS providers. Staff reviewed the rates of AT&T Communications of the Mountain States, Inc. ("AT&T"), MCI Telecommunications Corporation, ("MCI"), Sprint Communications Company, ("Sprint"), Allnet Communications Services, Inc., ("Allnet"), and QWEST Communications ("QWEST"). Staff then developed the attached Schedule 1 and 2, establishing maximum rates for the AOS services. These maximum rates coupled with discounting authority provide the market participants with the ability to compete on price and service quality. The Commission adopted these maximum rates in Decision No. 61274.

The Applicant has published legal notice of the application in the counties where service will be provided. On May 12, 2003, filed an Affidavits of Publication showing that legal notice was published in the three (3) counties, (Graham, Maricopa and Pima) where the authority to provide service is requested.

1.2 RATE REVIEW PROCESS

Staff has reviewed the rates of five major toll carriers to establish the maximum AOS rates, service charges and operator-dialed surcharges set forth on Schedule 1 and 2. If any of the carriers forming the rate group obtain higher rates, the Applicant should be authorized to allow its rates to float in accordance with the carriers revised higher rates so long as the AOS provider

complies with the following tariff filing requirements. The Applicant is required to file: 1) an estimate of the value of its plant to serve Arizona customers; 2) a tariff setting forth the new maximum rates, which do not exceed the maximum rates of the five major carriers set; and 3) all information required by R14-2-1110.

For example, AT&T currently has maximum rates in the night/weekend rate period in mileage bands 0 through 292 for the first minute and additional minutes in Schedule 1. In the event AT&T was to increase its rates in these mileage bands, the rates changed would establish new maximum rates in Schedule 1. Pursuant to Staff's recommendation, the Applicant would be allowed to seek authorization to increase its maximum rates and/or service charges accordingly by complying with the filing requirements described above.

Staff obtained information from VAC and has determined that its fair value rate base is zero. Accordingly, the company's fair value rate base is too small to be useful in a fair value analysis. In addition, the rate to be ultimately charged by the company will be heavily influenced by the market. Therefore, while Staff considered the fair value rate base information submitted by the company, it did not accord that information substantial weight in its analysis.

1.3 DISCOUNTING AUTHORITY

Staff recommends that the Applicant be allowed to discount its rates and service charges to the marginal cost of providing the services. Discount authority will provide the company with pricing flexibility to compete with other providers, as well as allow the potential benefits of price competition to accrue to end-users.

1.4 TECHNICAL CAPABILITY TO PROVIDE THE REQUESTED SERVICES

The Applicant has demonstrated sufficient technical capability to provide the proposed services. The Applicant is currently offering AOS services in twenty-three (23) states excluding Arizona. The Applicant is not a switchless reseller. In the event the Applicant experiences financial difficulties, end users can access other AOS providers.

Based on this information, Staff has determined that the Applicant has sufficient technical capabilities to provide AOS telecommunications services.

1.5 FINANCIAL CAPABILITY TO PROVIDE THE REQUESTED SERVICES

The Applicant did provide unaudited financial statements for the twelve (12) months ending December 31, 2002. These financial statements list assets of \$7.7 million; equity of \$3.2 million and a net loss of \$134,906. The Applicant did not provide notes related to the financial statements.

The applicant indicated that none of its officers, directors or partners have been involved in any civil or criminal investigations, formal or informal complaints. The applicant also indicated that none of its officers, directors or partners have been convicted of any criminal acts in the past ten (10) years.

1.6 INTERLATA TOLL CHARGES

Staff recommends interLATA rates and service charges to be based on the maximum rates and service charges authorized for certain interexchange carriers ("IXCs") certificated in Arizona as described above.

Staff recommends that the Commission authorize the Applicant to charge the maximum rate in each mileage band, respective of the day of the week and time of the day, currently authorized for any of the facilities-based IXC's as set forth in Schedule 1. In addition, Staff recommends that the Commission limit the Company's service charges to the highest authorized maximum service charge of any of the facilities-based IXC's as set forth in Schedule 1.

1.7 INTRALATA TOLL CHARGES

Staff recommends IntraLATA rates and service charges to be based on the maximum rates and service charges of the various facilities-based carriers certified to carry intraLATA toll calls in Arizona as described above.

Staff recommends that the Commission authorize the Applicant to charge the maximum rate in each mileage band, respective of the day of the week and time of the day, currently authorized for any of the various facilities-based intraLATA carriers set forth in Schedule 2. Furthermore, Staff recommends that the Commission limit the Company's service charges to the highest authorized maximum service charge of any of the facilities-based intraLATA carriers set forth in Schedule 2.

The attached Schedule 1 and 2 set forth Staff's recommended surcharges for interLATA and intraLATA toll calls respectively.

1.8 OPERATOR-DIALED SURCHARGE AND PROPERTY SURCHARGE

An operator-dialed surcharge is imposed when an end user has the capability to dial the call, but requests the operator to dial and make the call. A property surcharge is a per call bonus paid to the aggregator by the AOS Company. In prior decisions, the Commission has approved both an operator-dialed surcharge and a property (location-specific or subscriber) surcharge.

Staff recommends that the property surcharge be limited to \$1.00 per call. The

Commission has approved a property surcharge of \$1.00 for the majority of AOS carriers certified in Arizona. Limiting the property surcharge provides a level playing field for the competitors. Staff recommends consistency in the property surcharge to stress the importance of providing service to the end-users, rather than higher payments to aggregators for the opportunity to serve end-users.

Staff recommends approval of the operator-dialed surcharge and the property surcharge as described in Schedule 1 and 2.

1.9 ZERO MINUS CALLS

The term "zero-minus" refers to calls by individuals who dial "0" for the operator. The Commission adopted AAC R14-2-1006.A, which requires the AOS provider to route all zero-minus calls to the originating LEC. The Commission also provided a waiver from the requirement upon a showing that the AOS provider could provide the caller with equally quick and reliable service. Consolidated has not requested such a waiver.

1.10 PROPOSED TARIFF

VAC's tariff filing of June 27, 2003 does agree with the recommendations in the above sections. The Applicant's proposed rates and service charges for either interLATA or intraLATA telephone services are identical to or less than the rates and service charges contained in Staff's attached rate Schedule 1 and 2. Therefore, Staff believes the Applicant's proposed tariffs are reasonable and should be approved at this time.

2.1 RECOMMENDATIONS

The following section contains Staff recommendations concerning VAC's application to obtain a CC&N to provide AOS telecommunications services.

2.2 RECOMMENDATIONS ON APPLICANT'S APPLICATION

VAC is incorporated under the laws of the State of Texas. VAC is currently offering AOS service in twenty-three (23) states, excluding Arizona. Staff believes that the Applicant is a fit and proper entity to be granted a CC&N to provide AOS services with the following considerations:

1. The Applicant should be ordered to comply with all Commission rules, orders, and other requirements relevant to the provision of intrastate telecommunications service;

2. The Applicant should be ordered to maintain its accounts and records as required by the Commission;
3. The Applicant should be ordered to file with the Commission all financial and other reports that the Commission may require, and in a form and at such times as the Commission may designate;
4. The Applicant should be ordered to maintain on file with the Commission all current tariffs and rates, and any service standards that the Commission may require;
5. The Applicant should be ordered to comply with the Commission's rules and modify its tariffs to conform to these rules if it is determined that there is a conflict between the Applicant's tariffs and the Commission's rules;
6. The Applicant should be ordered to cooperate with Commission investigations including, but not limited to customer complaints;
7. The Applicant should be ordered to notify the Commission immediately upon changes to the Applicant's address or telephone number;
8. The maximum rates for these services should be the maximum rates proposed by the Applicant in its proposed tariffs. The minimum rates for the Applicant's competitive services should be the Applicant's total service long run incremental costs of providing those services as set forth in AAC R14-2-1109;
9. The rates proposed by this filing are for competitive services. In general, rates for competitive services are not set according to rate of return regulation. Staff obtained information from the company and has determined that its fair value rate base is zero. Accordingly, the company's fair value rate base is too small to be useful in a fair value analysis. In addition, the rate to be ultimately charged by the company will be heavily influenced by the market. Therefore, while Staff considered the fair value rate base information submitted by the company, the fair value information provided should not be given substantial weight in this analysis;
10. Staff further recommends that the Commission authorize the Applicant to discount its rates and service charges to the marginal cost of providing the services;
11. The Applicant's interLATA rates and service charges for AOS services should be based on the maximum rates and service charges as set forth in Schedule 1;
12. The Applicant's intraLATA rates and service charges for AOS services should be based on the maximum rates and service charges as set forth in Schedule 2; and
13. The Applicant's property surcharge for AOS services be limited to \$1.00 per call.

Staff further recommends that the Applicant be ordered to comply with the following. If it does not do so, the Applicant's CC&N shall be null and void without further order of the Commission and no time extensions shall be granted:

1. The Applicant shall file conforming tariffs within 365 days from the date of an Order in this matter or 30 days prior to providing service, which ever comes first.

This application may be approved without a hearing pursuant to A.R.S. § 40-282.

SERVICE LIST FOR: VALUE-ADDED COMMUNICATIONS, INC.
DOCKET NO. T-03798A-99-0604

Cheryl Cook
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Mr. Christopher C. Kempley
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1200 West Washington
Phoenix, Arizona 85007

Ms. Lyn Farmer
Chief Administrative Law Judge
Arizona Corporation Commission
Hearing Division
1200 West Washington
Phoenix, Arizona 85007

Schedule 1

Alternative Operator Services Maximum InterLata Usage Charges

Mileage Band	Day Time (a)		Evening/Holiday (b)		Night/Weekend (c)	
	First Minute	Addtl. Minute	First Minute	Addtl. Minute	First Minute	Addtl. Minute
0-10	0.3000	0.3000	0.3000	0.3000	0.3000	0.3000
11-16	0.4000	0.3000	0.3000	0.3000	0.3000	0.3000
17-22	0.4000	0.3000	0.3000	0.3000	0.3000	0.3000
23-30	0.4500	0.3000	0.3135	0.3000	0.3000	0.3000
31-40	0.5065	0.3000	0.3135	0.3000	0.3000	0.3000
41-55	0.5307	0.3332	0.3135	0.3000	0.3000	0.3000
56-70	0.5560	0.3732	0.3590	0.3000	0.3000	0.3000
71-124	0.5560	0.3865	0.3590	0.3000	0.3000	0.3000
125-196	0.5560	0.4265	0.3590	0.3000	0.3000	0.3000
197-292	0.5560	0.4799	0.3590	0.3000	0.3000	0.3000
293 & Over	0.5800	0.4820	0.3908	0.3000	0.3000	0.3000

Rate Periods

- (a) Day time is Monday through Friday 8:00 a.m. to 5 p.m.
- (b) Evening/Holiday is Sunday through Friday 5:00 p.m. to 11:00 p.m.
Officially recognized holidays are: New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving and Christmas Day. Evening rates are applicable during all holiday hours, except for hours when a lower rate (i.e. Night/Weekend) is applicable.
- (c) Night/Weekend is Sunday through Thursday 11:00 p.m. to 8:00 a.m., 11:00 p.m. Friday through 5:00 p.m. Sunday.

Alternative Operator Services Maximum InterLata Services Charges

Service (1) (2)	Maximum Charge
Customer Dialed Calling or Credit Card	\$1.50
Operator Dialed Calling or Credit Card	\$2.50
Station – to – Station Collect	\$2.33
Person – to – Person Collect	\$4.66
Third Party Person – to – Person	\$4.66
Third Party Station – to Station	\$2.33
Person – to – Person	\$4.50
Station – to – Station	\$3.50
Directory Assistance	\$2.00

- (1) An Operator Dialed Surcharge of \$2.00 will be applied to the capability to call, but requests the operator to do so instead. In accordance with A.A.C. R14-2-1005, end users shall be informed of this charge before call completion. This surcharge will not be imposed in cases of equipment failure or where the end user is experiencing a disability.
- (2) A Property Surcharge, Subscriber Surcharge or Location Specific Charge may be added to all operator assisted calls completed from Company subscriber locations. This surcharge will appear on the customer's bill and will be capped at \$1.00 per call; all of this surcharge will be remitted to the aggregator; however, this surcharge will not be collected by the Company if the aggregator is also collecting a surcharge.

Company _____
Docket No. _____
Decision No. _____

Schedule 2

Alternative Operator Services Maximum IntraLata Usage Charges

Mileage Band	Day Time (a)		Evening/Holiday (b)		Night/Weekend (c)	
	First Minute	Addtl. Minute	First Minute	Addtl. Minute	First Minute	Addtl. Minute
0-10	0.3000	0.3000	0.3000	0.3000	0.3000	0.3000
11-16	0.4000	0.3000	0.3000	0.3000	0.3000	0.3000
17-22	0.4000	0.3000	0.3000	0.3000	0.3000	0.3000
23-30	0.4500	0.3000	0.3135	0.3000	0.3000	0.3000
31-40	0.4500	0.3000	0.3135	0.3000	0.3000	0.3000
41-55	0.4500	0.3000	0.3135	0.3000	0.3000	0.3000
56-70	0.5200	0.3300	0.3590	0.3000	0.3000	0.3000
71-124	0.5200	0.3300	0.3590	0.3000	0.3000	0.3000
125-196	0.5300	0.3600	0.3590	0.3000	0.3000	0.3000
197-292	0.5800	0.3600	0.3590	0.3000	0.3000	0.3000
293 & Over	0.5800	0.3800	0.3980	0.3000	0.3300	0.3000

Rate Periods

- (a) Day time is Monday through Friday 8:00 a.m. to 5 p.m.
- (b) Evening/Holiday is Sunday through Friday 5:00 p.m. to 11:00 p.m.
Officially recognized holidays are: New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving and Christmas Day. Evening rates are applicable during all holiday hours, except for hours when a lower rate (i.e. Night/Weekend) is applicable.
- (c) Night/Weekend is Sunday through Thursday 11:00 p.m. to 8:00 a.m., 11:00 p.m. Friday through 5:00 p.m. Sunday.

Alternative Operator Services Maximum IntraLata Services Charges

Service (1) (2)	Maximum Charge
Customer Dialed Calling or Credit Card	\$1.50
Operator Dialed Calling or Credit Card	\$2.50
Station – to – Station Collect	\$2.30
Person – to – Person Collect	\$4.50
Third Party Person – to – Person	\$4.50
Third Party Station – to Station	\$2.30
Person – to – Person	\$4.50
Station – to – Station	\$3.50
Directory Assistance	\$2.00

- (1) An Operator Dialed Surcharge of \$2.00 will be applied to the capability to call, but requests the operator to do so instead. In accordance with A.A.C. R14-2-1005, end users shall be informed of this charge before call completion. This surcharge will not be imposed in cases of equipment failure or where the end user is experiencing a disability.
- (2) A Property Surcharge, Subscriber Surcharge or Location Specific Charge may be added to all operator assisted calls completed from Company subscriber locations. This surcharge will appear on the customer's bill and will be capped at \$1.00 per call; all of this surcharge will be remitted to the aggregator; however, this surcharge will not be collected by the Company if the aggregator is also collecting a surcharge.

Company _____
Docket No. _____
Decision No. _____